TESTIMONY OF DAVID C.LIZARRAGA, CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF THE EAST LOS ANGELES COMMUNITY UNION (TELACU) BEFORE THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT ON JUNE 4, 2003

Good morning Mr. Chairman and Members of the Subcommittee, I am David C. Lizarraga. I am the Chairman and CEO of The East Los Angeles Community Union (TELACU), a Los Angeles based non-profit community development corporation founded in 1968. I have led this organization for nearly thirty years. TELACU has become one of the nation's largest community development corporations with more than $350 million in assets. We are now the largest Hispanic company in Los Angeles County, the fourth largest in California and the 22nd largest in the nation.

TELACU was born out of a community’s deep desire to improve the lives of its people.

In the 1960’s, East Los Angeles was abandoned by the major companies that had for generations been the lifeblood of the community. Our community fell into a devastating economic decline. The greatest toll, however, was human, not economic. As a young man walking the streets of my neighborhood I saw much more than empty buildings. I saw despair on the faces of parents who had lost the means to provide for their families and who held out little hope for the future for their children. This despair in our neighborhoods brought together a dedicated group of community leaders to form TELACU. Our challenges were great but our approach was straightforward: to provide people with the tools for self-sufficiency and with the opportunities to use those tools

TELACU’s successful strategy is implemented through its wholly owned for-profit subsidiary, TELACU Industries, which provides the economic means to fulfill TELACU's mission. Through its businesses, services and partnerships, TELACU creates dynamic opportunities to rebuild and enhance the communities it serves. TELACU's mission of providing greater opportunities continues to be realized through the creation of new jobs, responsive financial institutions, expanding businesses, quality affordable housing, and educational opportunities for young people and veterans. TELACU brings together the private and public sectors in profitable business ventures that fulfill TELACU's mission. Each of our main divisions and subsidiaries is designed and managed to maximize our continued financial strength while optimizing our ability to benefit our communities.

From the building of hundreds of quality, affordable homes, to the creation of thousands of quality jobs, to the lending of millions of dollars to families and small businesses, our business philosophy is inseparable from our social philosophy. There is no more viable business venture than one that is economically sound, enhances the community, and positively impacts people's lives. That is the TELACU approach.

The refusal of credit to those in traditionally underserved communities had locked businesses, families and neighborhoods in our communities into financial stagnation that has lasted for generations. In 1976, to begin reversing this trend, TELACU chartered its own bank. Community Commerce Bank, a Community Development Financial Institution, was designed for the expressed purpose of serving the credit needs of people in our neighborhoods and communities. I am honored to serve as Chairman of the Board of Directors for our bank. Community Commerce Bank offers FDIC-insured Statement and Term accounts, and uses these deposits to make loans to families and small business owners. With experienced management and a dedicated staff, the bank has extended its services to communities in need with branches throughout California. The success of our bank is a testament to the viability of inner city lending. Since 1976, we have loaned $1.5 billion to our previously "un-banked" customers. For example, in 1996, we took a chance on a local Hispanic realtor, with limited credit and assets, and made him a loan to purchase and rehabilitate a house that had been foreclosed upon by HUD. This businessman restored the property, which was located in a low-income neighborhood, and re-sold it. Over the years we have made 35 loans to this individual for approximately $3 million, all of which were to rehabilitate properties. These loans not only helped increase this man's standing in the community, as well as his personal wealth and stability, they also put 35 affordable homes back into the severely limited housing market of Los Angeles.

Community Commerce Bank is one of the most successful and profitable financial institutions of its kind in the nation. Currently, we lend approximately $10 million per month with the majority of that lending volume in low income and minority neighborhoods. While some banks struggle to meet their community reinvestment commitments, Community Commerce Bank remains a dependable financial partner in the low income and minority communities we serve.

Our bank primarily provides real estate loans from five locations in the Los Angeles area as well as our locations in San Diego, Oakland and Sacramento. Our main branch and administrative offices are located in the heart of East Los Angeles. The communities we serve often require that our loan underwriting be non-traditional. But we are highly profitable, we have an enviable delinquency rate, we are highly rated by our state and federal regulators, and we have been recognized by the U.S. Small Business Administration as one of the best small business lenders.

The services of our bank are available to all of our local customers – white, black, Asian and Hispanic. But our focus is on the low income and minority neighborhoods in our communities and our original customer base and the great majority of our current minority customer base is Hispanic. We in the banking industry recognize that, as the baby-boomers reach age 65 and beyond, they are less likely to use consumer credit than younger consumers who are forming families and furnishing their homes. As this occurs, financial institutions will have to recognize that credit programs reaching the fast growing young Hispanic population in this country will be necessary. The U.S. native and non-native Hispanic population is expected to reach 53 million by 2020. Hispanics under the age of 18 will account for much of that growth. Currently, 16 percent of all residents under the age of 18 are Hispanic, but 22 percent of our 18-year olds in 2020 will be Hispanic. By 2020, the median age of Hispanics will be 28.8, versus 37.6 for the total population. When one adds the residents of Puerto Rico to the U.S. population count, the Hispanic community represents 42.6 million people. The annual purchasing power of Hispanics in the United States, including Puerto Rico, is now estimated to be $630 billion. In today's U.S. civilian labor force, including Puerto Rico, Hispanics are the second largest segment and also represent 10.3 percent of the private sector workforce. According to a 2001 report, Hispanic-owned firms now account for nearly 6 percent of all businesses in the United States.

Because the growth of the U.S. Hispanic population is surging in most states and regions, it is essential to the future growth and productivity of our nation that credit and other financial services be available everywhere in the U.S. to this fast growing portion of our population

The consumer credit reporting industry is a $6 billion industry that provides information about consumers to a wide variety of businesses everywhere in the United States. The service this industry provides is essential to our bank, to the entire financial services industry and to most businesses and nearly all consumers.

Accurate data and information are essential for robust competition in the marketplace. That's one reason that consumer advocates and community development financial institutions like ours argue on behalf of accurate information in credit reporting. It is also a reason we work hard to educate consumers – so that they can take advantage of their rights to ensure accuracy in what is collected and reported about them and to proscribe with whom it is shared. But it is also a reason for advocates of market driven opportunities and solutions, like me, to support laws requiring businesses to collect and use only accurate information about consumers and to protect that information from improper use.

This can be particularly important to low-income and minority consumers. Accurate credit data collection and reporting can help non-traditional borrowers overcome barriers that have artificially constrained economic growth in minority neighborhoods. If a non-traditional borrower retains a satisfactory credit record that is properly reported, it will be much more difficult for a lender or business to defend a decision to deny credit. For instance, a case has been made that the availability of reliable, accurate and standardized credit data has contributed to the rapid increase in the availability of bankcard credit to low income and minority consumers in recent years.

One of the major goals of the Fair Credit Reporting Act (FCRA) has been to promote accuracy in credit reporting by Credit Reporting Agencies (CRAs). The 1996 amendments to FCRA made substantial improvements in this area. These amendments were quite favorable to the interests of consumers. Obtaining or using consumer credit reports without a purpose authorized by FCRA is now prohibited. Also, businesses that get reports from CRAs for the purpose of reselling the information are now required to certify to the CRA the identity and permissible purpose of each person or entity to which the reports are resold; and as of July 1st of this year, consumers will have the opportunity to “opt-out” of some of this information reselling. Creditors who furnish information to CRAs now must provide accurate information. Creditors must now inform CRAs when a consumer voluntarily elects to close a credit account. Creditors also must now investigate information when notified by a CRA that a consumer has disputed information provided by the creditor. The results of this investigation must be reported back to the CRA within 30 days. If the creditor's investigation reveals that the information was incomplete or inaccurate, the creditor must also report these results to all other CRAs to which it has provided this information. When a consumer requests to see the contents of his file and provides proper identification, CRAs are now required to provide the consumer with copies of all information contained in the file, including the sources of that information. CRAs also must inform the consumer of all persons or businesses who have obtained reports regarding this consumer within the past year (or the past two years, if obtained for employment purposes). Various additional requirements for informing consumers of their rights and to inform regular users of credit reports of their responsibilities were also placed on CRAs. Additional amendments further addressed the accuracy of the information contained in consumer reports.

Despite these amendments, the Federal Trade Commission noted in 2002 that complaints about credit reports are still one of the most common consumer complaints the agency receives, with the largest number of complaints still relating to accuracy. The Congress should take appropriate measures to ensure greater accuracy in credit reports, including vigorous oversight and regulatory enforcement. Additionally, public and private support for consumer education can help ensure increased accuracy. But problems are not always related to accuracy. It is sometimes how reports are used, not the credit reports themselves which is the problem.

You are no doubt aware, Mr. Chairman, of recent revelations in the auto finance industry. Class actions against the major automobile lenders have revealed significant involvement in the practice of loan-arrangement fees. When a dealer sends a customer’s credit history to a lender, the lender responds telling the dealer the interest rate for the loan. This rate reflects all of the risks and credit history of the borrower. Lenders typically allow the dealership to mark up the rate if they can – in some cases by as much as five percentage points. The dealer and the lender share in the additional profit from the higher interest rate. In some of these cases, the dealer's profit from marking up a loan can be comparable to the profit from selling the car. These markups have been disproportionately applied to minority borrowers. More than half of one auto manufacturer’s white borrowers paid no markup at all, while more than half of its black customers paid an arrangement fee above $750. This manufacturer settled a class action case with a promise to put a two-point cap on the markup of most long-term loans. Again, however, it is important to note that these inflated rates are not risk-based. The markup is above and beyond the risk-adjusted rate that the lender sets on the basis of the borrower's credit history.

Finally, Mr. Chairman, let me say a word about common national standards for credit reporting. The provision of FCRA that makes the federal standard preeminent expires on January 1st of next year. I support a common national standard, Mr. Chairman. But by that I do not mean a standard pegged to the lowest common denominator. I appreciated the 1996 amendments to FCRA that extended additional, nationwide protections to consumers. I believe those protections benefited the financial services industry as well. But I know from our own experience in California that a hodgepodge of local standards can interfere with the good lending that we do at TELACU and Community Commerce Bank. Under Gramm-Leach-Bliley, we have had a number of attempts at local privacy standards in jurisdictions we serve across California. A proliferation of such local fair credit reporting standards would create difficulties for our highly regarded lending to low income and minority borrowers in Los Angeles, Orange County, San Diego, Oakland and Sacramento. So I would argue for a vigorously enforced federal standard with appropriate oversight from this Committee and the Congress. I believe such a federal standard serves our bank well but more importantly, serves our customers well.

And so, Mr. Chairman, while not all players in the business community, the financial services industry and the consumer credit reporting industry have always treated their low-income and minority customers in the way we always try to treat our customers at TELACU and Community Commerce Bank, I believe that the FCRA has helped advance the kind of lending and credit opportunities that we have worked so hard to make available in our communities. I strongly urge its reauthorization.